

## Message Text

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R 121010Z JUL 78  
FM AMEMBASSY DACCA  
TO SECSTATE WASHDC 0052  
INFO AMEMBASSY NEW DELHI  
AMEMBASSY ISLAMABAD  
AMCONSUL CALCUTTA

C O N F I D E N T I A L SECTION 1 OF 4 DACCA 4335

PASS AID/ASIA/BIS

E.O. 11652: GDS  
TAGS: EFIN EAID BG  
SUBJECT: BANGLADESH BUDGET FOR FY 1978/79

SUMMARY: BANGLADESH'S \$1.66 BILLION FY 1978/79 BUDGET PRE-  
SENTED TO THE NATION JUNE 30 BY PRESIDENT ZIAUR RAHMAN CON-  
TAINS NO SIGNIFICANT DEPARTURES IN PRODUCTION, RESOURCE MOBILI-  
ZATION OR INCOME DISTRIBUTION POLICIES. IT IS EIGHT PERCENT  
LARGER THAN THE FY 1977/78 REVISED BUDGET ESTIMATE AND IS  
BALANCED. IT PROJECTS GDP GROWTH OF 5.5 PERCENT COMPARED  
TO EIGHT PERCENT IN FY 1977/UIM FIFTY-EIGHT PERCENT OF ALL  
RESOURCES ARE ASSIGNED TO THE DEVELOPMENT BUDGET, WHICH IS  
15 PERCENT LARGER THIS YEAR. TWENTY-EIGHT PERCENT OF THE  
DEVELOPMENT BUDGET GOES TO AGRICULTURE, RURAL DEVELOPMENT  
AND IRRIGATION, COMPARED TO 19 PERCENT LAST YEAR. THIS IS  
ENCOURAGING ALTHOUGH RURAL NEEDS DESERVE EVEN GREATER  
PRIORITY. INDUSTRY, WHOSE CONTRIBUTION TO GDP IS ABOUT  
ONE-TENTH OF AGRICULTURE'S, GETS AN EXCESSIVE 17 PERCENT  
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OF THE DEVELOPMENT BUDGET, MUCH OF IT IN SUBSIDIES TO  
UNPROFITABLE STATE INDUSTRIES. DEFENSE AND LAW AND  
ORDER ARE ALLOCATED A REASONABLE ELEVEN PERCENT OF THE  
TOTAL BUDGET. EDUCATION RECEIVES ONLY EIGHT PERCENT OF  
THE TOTAL; A RELATIVELY LARGE PORTION IS FOR HIGHER  
EDUCATION. FAMILY PLANNING GETS ONLY TWO PERCENT OF  
THE TOTAL, WHICH IS INADEQUATE. SUBSIDIES ON FERTILIZER

AND RAILWAY TRANSPORT ARE REDUCED BY HIGHER PRICES AND A DROP IN THE SUBSIDY OF THE JUTE MILLS IS PROJECTED. BUT OTHERS, INCLUDING THE COSTLY FOOD SUBSIDY, REMAIN UNCHANGED. LAST YEAR'S VERY SUCCESSFUL FOODGRAIN PROCUREMENT AND PRICE SUPPORT PROGRAMS WILL BE CONTINUED, AND THE RURAL CREDIT PROGRAM WILL BE INCREASED BY 50 PERCENT. FOREIGN AID WILL FINANCE \$750 MILLION OR 45 PERCENT OF TOTAL RECORDED BUDGET EXPENDITURES (ALTHOUGH \$937 MILLION IN AID WILL ACTUALLY BE DISBURSED) AND 77 PERCENT OF THE DEVELOPMENT BUDGET, REFLECTING AN INCREASED RELIANCE ON AID. AN 11 PERCENT INCREASE IN DOMESTIC REVENUES IS PROJECTED, MAINLY FROM HIGHER CUSTOMS COLLECTIONS. OVERALL, THE BUDGET REFLECTS THE GOVERNMENT'S CAUTIOUS POLICY OF DEFERRING MAJOR ECONOMIC REFORMS AND DEVELOPMENT INITIATIVES AT LEAST UNTIL THE DECEMBER PARLIAMENTARY ELECTIONS OR PERHAPS UNTIL THE 1981-86 FIVE-YEAR PLAN. THIS CAUTIOUS APPROACH IS UNDERSTANDABLE, BUT NEVERTHELESS DISAPPOINTING GIVEN THE URGENCY OF BANGLADESH'S PROBLEMS. THE FOLLOWING MESSAGE SUMMARIZES THE NEW BUDGET AND HIGHLIGHTS SIGNIFICANT ASPECTS. ALL FIGURES ARE EXPRESSED IN ROUNDED MILLIONS OF U.S. DOLLARS AT THE CURRENT EXCHANGE RATE OF APPROXIMATELY TAKA 15/\$1. END SUMMARY.

1. PRESIDENT'S REMARKS: IN A PREFACE TO HIS BUDGET PRESENTATION, PRESIDENT ZIA AFFIRMED THE "DECISIVE" CONFIDENTIAL

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IMPORTANCE OF AGRICULTURE AND RURAL DEVELOPMENT IN BANGLADESH'S GROWTH STRATEGY, NOTING THAT RURAL DEVELOPMENT IS CLOSELY LINKED TO THE URBAN AND INDUSTRIAL SECTORS. EFFECTIVE RURAL DEVELOPMENT, HE SAID, REQUIRES DEVELOPMENT OF DEMOCRATIC, PARTICIPATORY INSTITUTIONS AT THE GRASS ROOTS LEVEL, WHICH BANGLADESH HAS LACKED IN THE PAST. HE CALLED FOR SACRIFICE AND RESPECT FOR THE DEMOCRATIC PROCESS, WHICH HE SAID WAS STRENGTHENED BY THE RECENT ELECTION, NOTING THAT "ONE MUST KEEP ONE'S OBLIGATIONS TO ENJOY ONE'S PRIVILEGES".

2. FY 1977/78 ECONOMIC PERFORMANCE: GDP ROSE EIGHT PERCENT COMPARED TO TWO PERCENT LAST YEAR DUE TO GROWTH OF 13 PERCENT IN FOODGRAIN PRODUCTION, TEN PERCENT IN INDUSTRY AND EIGHT PERCENT IN OTHER SECTORS. THE KEY GROWTH FACTOR WAS A RECORD PRODUCTION OF 13.3 MILLION TONS OF FOODGRAIN MADE POSSIBLE BY GOOD WEATHER, A 27 PERCENT INCREASE IN FERTILIZER USE (650,000 TONS) AND SUCCESSFUL GOVERNMENT PROCUREMENT, PRICE SUPPORT AND CREDIT PROGRAMS. IMPORTS, AIDED BY LIBERALIZED POLICIES, ROSE TO \$1.3 MILLION, UP FROM \$773 MILLION LAST YEAR. EXPORTS INCREASED FROM \$426 MILLION TO \$500 MILLION.

PRICE ROSE APPROXIMATELY 15 PERCENT.

3. FY 1977/78 REVISED ESTIMATES: DOMESTIC REVENUES AND FOREIGN AID AVAILABLE FOR THE FY 1977/78 BUDGET EXCEEDED THE ORIGINAL ESTIMATES, AS SHOWN IN THE REVISED ESTIMATE COLUMN BELOW. BUT EXPENDITURES ALSO INCREASED, PRODUCING A DEFICIT OF ABOUT \$62 MILLION. INCREASED OUTLAYS WERE DUE TO NEW SALARY AND PENSION BENEFITS, A SHARPLY INCREASED SUBSIDY FOR THE STATE JUTE MILLS, INCREASED SUBSIDIZED FOOD DISTRIBUTIONS THROUGH THE RATION SYSTEM, UNPLANNED COMMERCIAL FOODGRAIN IMPORTS, HIGHER THAN EXPECTED PROCUREMENT OF FOODGRAIN, AND AN UNPLANNED BOOST IN DEVELOPMENT SPENDING OF \$41 MILLION.

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R 121010Z JUL 78  
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4. FY 1978/79 RECEIPTS AND EXPENDITURES AT A GLANCE:

	BUDGET ESTIMATE	REVISED ESTIMATE	BUDGET ESTIMATE
	FY 1977/78	FY 1977/78	FY 1978/79
DOMESTIC RESOURCES	801	850	917
(TAX, NON-TAX & NET CAPITAL ITEMS)			
NET FOREIGN AID	597	614	750
ASSIGNED TO BUDGET			

TOTAL RESOURCES AVAILABLE	1,398	1,464	1,667
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REVENUE BUDGET	604	691	702
DEVELOPMENT BUDGET	794	835	964

TOTAL BUDGET	1,398	1,526	1,666
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SURPLUS/DEFICIT	0	MINUS 62	PLUS 1
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5. FINANCING THE FY 1978/79 BUDGET: AS INDICATED IN THE ABOVE TABLE, FOREIGN AID WILL FINANCE ROUGHLY 45 PERCENT OF THE NEW DUDGET, FIVE PERCENT MORE THAN IN FY 1977/78. SEVENTY-SEVEN PERCENT OF THE DEVELOPMENT BUDGET IS FINANCED WITH AID, SLIGHTLY HIGHER THAN LAST YEAR.

(A) DOMESTIC REVENUES: THE NEW BUDGET ESTIMATES AN 11 PERCENT INCREASE IN TAX AND NON-TAX REVENUES TO \$917 MILLION BASED LARGELY ON AN EXPECTED 24 PERCENT INCREASE IN CUSTOMS DUTIES TO \$326 MILLION. (IN FY 1977/78 CUSTOMS RECEIPTS WERE 41 PERCENT OF ALL TAX COLLECTIONS; THIS IS EXPECTED TO RISE TO 45 PERCENT IN THE NEW BUDGET.) THIS ESTIMATE IS BASED ON PROJECTED HIGHER IMPORTS AND VARIOUS NEW FARIFF MEASURES ANNOUNCED IN THE BUDGET. FOR EXAMPLE, A 50 PERCENT REDUCTION ON TARIFFS ON RAW MATERIALS IMPORTED UNDER THE WAGE EARNERS SCHEME, USING FOREIGN EXCHANGE REMITTED FROM BANGLADESHI ABROAD, IS EXPECTED TO BOOST SUCH IMPORTS. ALSO EXPORT DUTY ON UNTANNED LEATHER, A MAJOR EXPORT, IS INCREASED FROM TEN TO 15 PERCENT TO ENCOURAGE LOCAL PROCESSING. THERE ARE ALSO MINOR CHANGES IN INCOME TAXES DESIGNED TO PROMOTE SAVINGS AND INVESTMENT. THE NON-TAXABLE INCOME LIMIT IS RAISED FROM TK 9,000 TO 10,000. THE PREMIUM EARNED ON WAGE EARNER REMITTANCES IS DECLARED TAX EXEMPT AND THE MAXIMUM RATE OF CORPORATE AND PERSONAL INCOME TAXES IS REDUCED FROM 65 PERCENT TO 60 PERCENT. DIRECT TAX COLLECTIONS ARE EXPECTED TO RISE BY 12 PERCENT (\$10 MILLION), TO \$93 MILLION. THE BDG HAS EVIDENTLY DECIDED NOT TO ACCELERATE TAXATION OF LARGER FARMERS, A MAJOR

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UNTAPPED SOURCE, OR TO IMPROVE COLLECTION OF LAND TAXES, WHICH ACCORDING TO A WORLD BANK ESTIMATE COULD YIELD

\$20 MILLION IN NEW REVENUE. NON-TAX RECEIPTS, WHICH INCLUDE PROFITS OF STATE INDUSTRIES, BANKS AND UTILITIES, INTEREST ON GOVERNMENT LOANS, STAMPS AND OTHER RECEIPTS, ARE EXPECTED TO RISE FROM \$187 TO \$200 MILLION.

(B) FOREIGN AID: FOREIGN LOANS AND GRANTS AVAILABLE DURING FY 1978/79 ARE AN ESTIMATED \$937 MILLION, AN INCREASE OF 25 PERCENT OVER THE FY 1977/78 REVISED ESTIMATE. A BREAKDOWN OF VARIOUS CATEGORIES FOLLOWS:

	REVISED ESTIMATE FY 1977/78	BUDGET ESTIMATE FY 1978/79
FOODGRAIN	193	246
EDIBLE OIL	26	59
SKIM MILK	7	4
TOTAL FOOD AID	(226)	(309)
OTHER COMMODITY AID	266	318
PROJECT AID	258	310
TOTAL	750	937

#### 6. SUBSIDIES.

(A) FOOD: THE CONTRIBUTION OF AID SHOWN IN THE FY 1978/79 BUDGET ESTIMATES (PARA 4) IS ONLY \$750 MILLION, \$188 MILLION LESS THAN THE ACTUAL VALUE OF \$937 MILLION, BECAUSE OF THE BDG'S PRACTICE OF DEDUCTING COSTS OF THE FOOD BUDGET, INCLUDING THE LARGE FOOD SUBSIDY, FROM THE ACTUAL VALUE OF FOOD AID. IN THE FY 1978/79 BUDGET  
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FOOD AID (FOODGRAIN, EDIBLE OIL AND SKIM MILK) IS LISTED AS ONLY \$121 MILLION OF WHICH \$37 MILLION IS FOR FOOD FOR WORK, WHEREAS THE REAL VALUE OF FOOD AID IS \$309 MILLION. OF THE \$188 MILLION DIFFERENCE, \$49 MILLION IS SHOWN IN THE FOOD ACCOUNT AS A SUBSIDY. HOWEVER THIS REFLECTS ONLY THE LOSS ON SALES OF FOOD PURCHASED COMMERCIAL BY THE GOVERNMENT. THE WORLD BANK ESTIMATED THE ACTUAL FOOD SUBSIDY IN FY 1977/78 BASED ON LOSSES ON SALES OF BOTH COMMERCIAL AND AID IMPORTS, AT \$159 MILLION. THERE IS NO INDICATION IN THE BUDGET THAT RATION PRICES FOR FOOD WILL BE RAISED AGAIN THIS YEAR. THE FOOD SUBSIDY IN FY 1978/79 WILL THEREFORE PROBABLY BE AT LEAST AS HIGH.

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(B) FERTILIZER: THE FERTILIZER SUBSIDY, A LARGE BUDGET ITEM, WILL BE REDUCED BY RAISING FERTILIZER PRICES AS FOLLOWS: UREA TK 60 TO TK 70; TSP TK 48 TO TK 55; MP TK 40 TO TK 45. THE FERTILIZER SUBSIDY FOR FY 1978/79 IS ESTIMATED AT \$43 MILLION (36 PERCENT OF DEVELOPMENT EXPENDITURES ON AGRICULTURE) COMPARED TO THE REVISED ESTIMATE FOR FY 1977/78 OF \$45 MILLION. WE SUSPECT, HOWEVER, THAT WHILE THE 15 PERCENT AVERAGE INCREASE IN FERTILIZER PRICES WILL REDUCE PER-UNIT FERTILIZER SUBSIDIES, THE PROJECTED EXPANSION OF FERTILIZER SALES BY AT LEAST 15 PERCENT IN 1978/79 WILL LEAVE THE TOTAL FERTILIZER SUBSIDY BILL ESSENTIALLY UNCHANGED.

(C) JUTE: IN FY 1977/78 THE SUBSIDY TO THE STATE-OWNED JUTE MILLS ROSE FROM A PLANNED \$6.6 MILLION IN THE ORIGINAL REVENUE BUDGET ESTIMATE TO \$39 MILLION, DUE IN PART TO RISING COSTS OF RAW JUTE. THE SUBSIDY IS EXPECTED TO DROP TO \$30 MILLION IN FY 1978/79 WHEN RAW  
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JUTE WILLNUE MORE PLENTIFUL. THE JUTE INDUSTRY ALSO REVEICES AN ADDITIONAL \$22 MILLION IN THE DEVELOPMENT BUDGET UNDER "LOANS AND ADVANCES" TO STATE INDUSTRIES.

(D) RAILWAYS: IN ORDER TO ERASE THE GROWING DEFICIT OF THE STATE RAILWAYS, PASSENGER FARES AND FREIGHT RATES WILL BE INCREASED. (WE UNDERSTAND BANGLADESH BIMAN AIRLINES, WHOSE DOMESTIC FLIGHTS ARE HIGHLY SUBSIDIZED, HAS APPLIED FOR A SIMILAR FARE INCREASE.) NO OTHER SUBSIDY REDUCTIONS ARE ANNOUNCED AND CONTINUING LARGE SUBSIDIES TO THE STATE CORPORATIONS IN THE FORM OF "LOANS AND ADVANCES" ARE INCLUDED IN THE DEVELOPMENT BUDGET.

7. BUDGET ALLOCATIONS TO KEY SECTORS: THE BUDGET IS DIVIDED INTO THE REVENUE BUDGET, WHICH COVERS ORDINARY EXPENDITURES, A CAPITAL BUDGET IN BETWEEN AND THE DEVELOPMENT BUDGET. IN PRACTICE THE DISTINCTION BETWEEN REVENUE AND DEVELOPMENT COSTS IS OFTEN ARBITRARY AND MANY OPERATING EXPENDITURES ARE INCLUDED IN THE DEVELOPMENT BUDGET. THE FOLLOWING TABLE ROUGHLY ILLUSTRATES ALLOCATIONS TO SELECTED KEY SECTORS:

	FY 1977/78	FY 1978/79	FY 1978/79	FY 1978/79
	REVISED EST	REVENUE	DEVELOP.	PERCENT OF
	REV/DEVEL	BUDGET	BUDGET	TOTAL BUDGET
	BUDGETS			

AGRICULTURE	87	9	129)	
RURAL DEVELOP	21		45)	17
FLOOD CONTROL & CONFIDENTIAL	54		98)	

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#### WATER RESOURCES

INDUSTRIES	112	1	161	10
POWER		88	5	
TRANSPORT, RAILWAY	172	53	139	12
EDUCATION, TRAINING, CULTURAL FAFFAIRS, SPORT	117	93	48	8
HEALTH	101	33	36	4

POPULATION & 21 1 29 2  
FAMILY PLANNING

BANGLADESH 17 22)  
RIFLES

ANSARS & 9 6) 11  
ENFORCEMENT

DEFENSE SERV. 133 117)  
POLICE 39 40)

TOTALS FY 1978/79: REVENUE BUDGET \$702 MILLION; DEVEL-  
OPMENT BUDGET \$964 MILLION; OVERALL BUDGET \$1,666  
MILLION. (NOTE: ANSARS ARE ARMED RESERVE POLICE.)

(1) AGRICULTURE, RURAL DEVELOPMENT AND IRRIGATION:  
THESE SECTORS, COMBINED, RECEIVE THE LARGEST SHARE --  
28 PERCENT OF THE DEVELOPMENT BUDGET AND 17 PERCENT  
OF THE TOTAL BUDGET. THIS IS A 19  
PERCENT INCREASE OVER LAST YEAR. THE LARGEST SINGLE  
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ITEM IN THE \$43 MILLION SUBSIDY FOR FERTILIZER. THE  
LARGEST ENTRY UNDER RUAL DEVELOPMENT IS \$21 MILLION  
FOR PUBLIC WORKS. THE INTEGRATED RURAL DEVELOPMENT  
PROGRAM GETS ONLY \$6 MILLION. NINETY-EIGHT MILLION  
DOLLARS ARE ALLOCATED TO IRRIGATION FOR MANY SMALL AND  
A FEW LARGE PROJECTS. THIS IS 80 PERCENT HIGHER THAN  
THE FY 1977/78 REVISED ESTIMATE. THE \$66 MILLION SPECIAL  
AGRICULTURAL CREDIT PROGRAM LAUNCHED LAST YEAR, WHICH  
HELPED BOOST FOODGRAIN AND OTHER AGRICULTURAL PRODUC-  
TION IN FY 1977/78, WILL BE INCREASED BY \$33 MILLION  
THIS YEAR. LAST YEAR'S SUCCESSFUL FOODGRAIN PROCURE-  
MENT PROGRAM WILL CONTINUE. PROCUREMENT PRICES ARE  
UNCHANGED: TK 80/MAUND FOR PADDY; TK 128/MAUND FOR  
COARSE RICE; TK 130/MAUND FOR MEDIUM QUALITY RICE; AND  
TK 4 FOR TRANSPORTATION BONUS. PROCUREMENT WILL START  
EARLY IN NOVEMBER AND PROCUREMENT CENTERS WILL BE  
INCREASED. THE GROWTH IN BUDGET FUNDS FOR AGRICULTURE,  
RURAL DEVELOPMENT AND IRRIGATION IS ENCOURAGING, BUT  
THE AMOUNT IS STILL TOO SMALL GIVEN THE FACT THAT AGRICULTURE  
SUPPORTS THE GREAT MAJORITY OF ALL BANGLADESHIS AND HAS THE  
GREATEST POTENTIAL FOR PROMOTING GROWTH AND EQUITY.

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PASS AID/ASIA/BIS

(B) INDUSTRY: THE \$170 MILLION BUDGET FOR INDUSTRY--  
TEN PERCENT OF THE ENTIRE BUDGET AND 17 PERCENT OF THE  
DEVELOPMENT BUDGET -- SEEMS EXCESSIVE. (IT DOES NOT  
INCLUDE THE \$30 MILLION SUBSIDY IN THE REVENUE BUDGET  
FOR THE JUTE INDUSTRY.) INDUSTRY CONTRIBUTES ONLY 8.5  
PERCENT OF NATIONAL INCOME. THE STATE INDUSTRIES,  
WHICH RECEIVE MOST BUDGET FUNDS, OWN 85 PERCENT OF ALL  
INDUSTRIAL ASSETS, YET THEY PRODUCE ONLY 60 PERCENT OF  
OUTPUT. THEY ARE EXPECTED TO CONTRIBUTE ONLY \$17  
MILLION IN EARNINGS IN FY 1978/79, AND WILL PROBABLY  
PAY LESS THAN \$150 MILLION IN TAXES AND DUTIES. A LARGE PART  
OF THE INDUSTRY BUDGET IS IN THE FORM OF \$120 MILLION  
IN "LOANS AND ADVANCES" TO THE NATONALIZED INDUSTRIES  
(COMPARED TO \$105 MILLION LAST YEAR). MUCH OF THIS  
IS DISGUISED SUBSIDY TO COVER OPERATING LOSSES, RATHER  
THAN FINANCING FOR NEW INVESTMENT. THERE IS NO INDICA-  
TION OF NEW POLICY MEASURES TO REDUCE THE VERY HIGH COSTS  
OF THE STATE INDUSTRIES, WHICH WOULD MAKE MORE RESOURCES  
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ABAILABLE FOR AGRICULTURE AND OTHER MORE IMPORTANT  
SECTORS. THIS IS A MAJOR SHORTCOMING.

(C) EDUCATION: THE \$141 MILLION ALLOCATION FOR EDUCAT-  
ION, EIGHT PERCENT OF THE TOTAL, INCLUDE \$54 MILLION FOR

PRIMARY EDUCATION, \$27 MILLION FOR COLLEGES AND UNIVERSITIES AND \$13 MILLION FOR TECHNICAL AND VOCATIONAL TRAINING. THE RELATIVELY HIGH PERCENTAGE FOR HIGHER EDUCATION SHOWS THE CONTINUING ELITE BIAS OF BANGLADESH'S EDUCATIONAL SYSTEM.

(D) FAMILY PLANNING: THIRTY MILLION DOLLARS ALLOCATED TO FAMILY PLANNING -- ONLY TWO PERCENT OF THE ENTIRE BUDGET. THIS VERY LITTLE CONSIDERING THE IMPORTANCE OF THIS AREA, ALTHOUGH IT IS \$9 MILLION HIGHER THAN THE FY 1977/78 REVISED ESTIMATE. (FOR REASONS WHICH ARE NOT CLEAR THE FAMILY PLANNING BUDGET APPARENTLY DOES NOT INCLUDE SOME AID CONTRIBUTIONS. THUS OVERALL FAMILY PLANNING EXPENDITURES COULD EXCEED \$30 MILLION.) THE MAJOR ITEMS IN THE BUDGET ARE \$14 MILLION FOR THE FAMILY PLANNING PROGRAM STAFF AND ADMINISTRATIVE COSTS, OF WHICH \$6 MILLION IS RESERVED FOR "CONTINGENCIES", \$2 MILLION FOR EIGHT FAMILY WELFARE VISITORS TRAINING CENTERS IN THE MAJOR DISTRICT TOWNS, \$2 MILLION FOR THE VOLUNTARY STERILIZATION PROGRAM AND \$6 MILLION FOR 500 UNION FAMILY WELFARE CENTERS. (NOTE: AS REPORTED IN DACCA 4291, PRESIDENT ZIA ON JULY 4 ORDERED MANAGEMENT IMPROVEMENTS THAT SHOULD STRENGTHEN THE FAMILY PLANNING EFFORTS.)

(E) DEFENSE AND LAW AND ORDER SECURITY: ALTHOUGH THE MILITARY HAS PLAYED A KEY ROLE IN BANGLADESH IN RECENT YEARS, IT HAS NOT MADE LARGE CLAIMS ON THE BUDGET. THE \$185 MILLION ALLOCATED TO DEFENSE SERVICES, BANGLADESH RIFLES, CONFIDENTIAL

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ANSARS AND ENFORCEMENT AND POLICE REPRESENTS ELEVEN PERCENT OF THE BUDGET. IT IS \$13 MILLION LOWER THAN IN THE FY 1977/78 REVISED ESTIMATE. HOWEVER THE FY 1977/78 REVISED ESTIMATE EXCEEDED THE ORIGINAL FY 1977/78 BUDGET ESTIMATE BY A WIDE MARGIN: EXPENDITURES FOR DEFENSE SERVICES WAS \$25 MILLION HIGHER THAN EXPECTED AND THE BUDGETS FOR BANGLADESH RIFLES ANSARS AND ENFORCEMENT AND POLICE ROSE BY OVER \$3 MILLION. A SIMILAR ESCALATION COULD HAPPEN AGAIN THIS YEAR. NEVERTHELESS THESE MAGNITUDES ARE NOT EXCESSIVE, GIVEN THE NEED TO MAINTAIN MILITARY MORALE AND A REASONABLE STATE OF READINESS AND DOMESTIC LAW AND ORDER.

8. COMMENT: THE NEW BUDGET CONTAINS A FEW USEFUL IMPROVEMENTS, BUT IT REFLECTS THE BDG'S CAUTIOUS POLICY OF DEFERRING MAJOR CHANGES AND REFORMS AT LEAST UNTIL AFTER THE DECEMBER PARLIAMENTARY ELECTIONS AND PERHAPS UNTIL THE 1981-86 FIVE-YEAR PLAN. IT DOES NOT ADEQUATELY ADDRESS THE NEED FOR RAISING MORE LOCAL RESOURCES BY ELIMINATING SUBSIDIES, REFORMING THE COSTLY STATE SECTOR AND INCREASING DIRECT TAXATION,

AND IT CONTAINS NO IMPORTANT MEASURES FOR INCREASING PRIVATE INVESTMENT. THE BDG EVIDENTLY ASSIGNS LESS URGENCY TO THE PROBLEM OF RESOURCE MOBILIZATION THAN THE DONORS, PERHAPS BECAUSE AMPLE AID CONTINUES TO BE AVAILABLE. FROM THE STANDPOINT OF PRODUCTION, EMPLOYMENT GENERATION, INCOME DISTRIBUTION AND SECTORAL EMPHASIS, THE TREND TOWARD MORE FUNDS FOR RURAL DEVELOPMENT IN GENERAL IS ENCOURAGING, BUT RESOURCES FOR MOST AREAS OF RURAL DEVELOPMENT ARE STILL TOO SMALL CONSIDERING THE CRUCIAL IMPORTANCE OF AGRICULTURE AND RURAL GROWTH TO OVERALL DEVELOPMENT. ALSO, SPENDING ON THE COSTLY AND UNPRODUCTIVE STATE INDUSTRIAL SECTOR IS EXCESSIVE. THE AMOUNTS ASSIGNED SUCH AREAS AS FAMILY PLANNING AND PRIMARY EDUCATION ARE ALSO INADEQUATE. THERE ARE SERIOUS BUREAUCRATIC, INSTITUTIONAL AND POLITICAL BARRIERS TO A BETTER ALLOCATION OF

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BANGLADESH'S RESOURCES. THE SECTORS THAT NEED THE MOST INVESTMENT ARE OFTEN THE LEAST CAPABLE OF ABSORBING IT. STILL, WITHOUT UNDERESTIMATING THESE LIMITATIONS, THE BDG CAN DO MORE TO ATTACK ITS SERIOUS ECONOMIC PROBLEM THROUGH THE BUDGET THAN IT HAS CHOSEN TO DO THIS YEAR.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** BUDGET DATA, ECONOMIC PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 12 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978DACCA04335  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780286-0901  
**Format:** TEL  
**From:** DACCA  
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**Previous Handling Restrictions:** n/a  
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**Review Event:**  
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**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Subject:** BANGLADESH BUDGET FOR FY 1978/79 SUMMARY: BANGLADESH'S \$1.66 BILLION FY 1978/79 BUDGET PRE- SENTED TO THE NATION JUNE 30 BY PRESIDENT ZIAUR RA  
**TAGS:** EFIN, EAID, BG  
**To:** STATE  
**Type:** TE  
**vdkgvkey:** odb://SAS/SAS.dbo.SAS\_Docs/ea704977-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014